

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF MEDICARE  
ADMINISTRATIVE COSTS CLAIMED BY  
BLUE CROSS AND BLUE SHIELD  
OF KANSAS, INC.,  
TOPEKA, KANSAS**

**FOR THE PERIOD  
OCTOBER 1, 1995 TO SEPTEMBER 30, 1999**



**MARCH 2001  
A-07-01-02090**



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General  
Office of Audit Services

Region VII  
601 East 12th Street  
Room 284A  
Kansas City, Missouri 64106

CIN A-07-01-02090

March 21, 2000

Ms. Kay Vondemkamp  
Vice-President, Government Programs  
Blue Cross and Blue Shield of Kansas, Inc.  
1133 SW Topeka Boulevard  
Topeka, Kansas 66629-0001

Enclosed for your information are two copies of an audit report (CIN A-07-01-02090) prepared by Doshi and Associates, P.C., on behalf of the Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services (OAS). The OAS exercised technical oversight and quality control on the examination.

The report covers the audit of administrative costs claimed by Blue Cross and Blue Shield of Kansas, Inc., for Part A and Part B of the Medicare Program for the period October 1, 1995 through September 30, 1999. For the period audited, Blue Cross and Blue Shield of Kansas claimed administrative costs of \$17,166,354 for Kansas Part A, \$55,678,145 for Kansas Part B, and \$22,778,377 for Nebraska Part B. Your attention is invited to the finding and recommendations contained in the report. The report recommends that unallowable costs for excess executive compensation, in the amount of \$191,919, be offset with a like amount of unrecovered allowable costs. It further recommends that procedures be put in place to establish reasonable ceilings on executive salary increases allocated to Medicare.

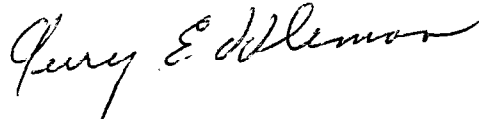
Final determinations as to actions to be taken on all matters reported will be made by the HHS action official named. We request that you respond to the official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act, which the Department chooses to exercise. (See 45 Code of Federal Regulations, Part 5).

Ms. Kay Vondemkamp - Page 2

To facilitate identification, please refer to the above Common Identification Number (CIN) in all correspondence relating to this report.

Sincerely,

*for*   
James P. Aasmundstad  
Regional Inspector General  
for Audit Services

Enclosure

Direct Reply To:

Mr. Joe Tilghman  
Regional Administrator  
Health Care Financing Administration  
Federal Building, Room 235  
601 East 12<sup>th</sup> Street  
Kansas City, Missouri 64106

**Report on the Audit of Administrative Costs  
Claimed under Part A and Part B of the  
Health Insurance  
For the Aged and Disabled Program**

**Blue Cross and Blue Shield of Kansas, Inc.  
Topeka, Kansas**

**For the Period October 1, 1995 through  
September 30, 1999**

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**DOSHI & ASSOCIATES, P.C.**

**ACCOUNTANTS AND MANAGEMENT CONSULTANTS**

**KANSAS CITY, MISSOURI**

## SUMMARY

The Blue Cross and Blue Shield of Kansas (Kansas) claimed Medicare Part A and Part B administrative costs for the period October 1, 1995 through September 30, 1999, as follows:

<u>Fiscal Year</u>	<u>Kansas Part A</u>	<u>Kansas Part B</u>	<u>Nebraska Part B</u>	<u>Total</u>
1999	\$4,408,889	\$14,070,384	\$6,007,930	\$24,487,203
1998	4,668,316	15,726,728	6,673,880	27,068,924
1997	4,051,908	12,572,511	4,758,449	21,382,868
1996	4,037,241	13,308,522	5,338,118	22,683,881
Total	<u>\$17,166,354</u>	<u>\$55,678,145</u>	<u>\$22,778,377</u>	<u>\$95,622,876</u>

Of the \$95,622,876 in administrative costs claimed, we are recommending a financial adjustment of \$191,919, as detailed in Exhibits and the Findings and Recommendation Section of the report.

The unallowable costs of \$191,919 represented executive compensation increases that exceeded average increases for comparable positions, as measured by the Department of Labor, Employment Cost Index (ECI).

During the four fiscal years audited Kansas had \$14,724,227 in unrecovered costs on the Medicare contracts. That amount represented the difference between actual costs incurred on the Medicare contracts and amounts withdrawn from the letter of credit. (Details are provided on EXHIBIT M.)

We are recommending that the HCFA contracting officer consider offsetting the excess executive compensation with an equal amount of unrecovered costs.

Kansas officials did not concur with the recommended financial adjustment relating to executive compensation. Those officials's response and our comments are provided after the finding. Also a copy of Kansas's entire response to the draft is provided as an attachment.

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ATTACHMENT Blue Cross Blue Shield of Kansas  
Response to Draft Report

# *Doshi & Associates, P.C.*

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*Manager:*

*Williams J. Anderson*

## INDEPENDENT ACCOUNTANTS' REPORT

### OPINION

Health Care Financing Administration  
Department of Health and Human Services

We have examined the "Final Administrative Cost Proposals" (FACPs) of Blue Cross and Blue Shield of Kansas, Inc. (Kansas) for the fiscal years ended September 30, 1999, 1998, 1997, and 1996. These financial statements are the responsibility of Kansas management. Our responsibility is to express an opinion on these financial statements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, "Government Auditing Standards," and the "Audit Guide For The Review of Administrative Costs Incurred By Medicare Intermediaries and Carriers under Title XVIII of the Social Security Act" (Audit Instruction E-1), dated February 25, 1991, and accordingly, included examining, on a test basis, evidence supporting the FACPs and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

We have identified a total of \$191,919 in costs recommended for financial adjustment. The final determination as to whether such costs are allowable will be made by the U.S. Department of Health and Human Services.

Excluded from our examination was a review of pension segmentation. This exclusion was directed by the U.S. Department of Health and Human Services, Office of Inspector General (HHS-OIG).

In our opinion, with the exception of the ultimate resolution of the costs recommended for financial adjustment and any adjustment that might be necessary for pension segmentation, the FACPs referred to above present fairly, in all material respects, the administrative costs applicable to the Part A and Part B Health Insurance for the Aged and Disabled Program, claimed by Kansas for the fiscal years ended September 30, 1999, 1998, 1997, and 1996 in accordance with the reimbursement principles of Part 31 of the FAR as contained in 48 Code of Federal Regulations (CFR) Chapter (CH) 1, interpreted and modified by the Medicare Agreements.

#### *Members*

*American Institute of Certified Public Accountants  
Missouri Society of Certified Public Accountants*



Health Care Financing Administration  
Department of Health and Human Services  
Page 2

This report is intended solely for the use of management within Kansas and the U.S. Department of Health and Human Services in regard to their agreement to administer the Medicare program and should not be used for any other purpose.

*Doshi & Associates, P.C.*

**Doshi & Associates, P.C.**

Kansas City, Missouri  
November 17, 2000

**Doshi & Associates, P.C.**

## INTRODUCTION

### BACKGROUND

Health Insurance for the Aged and Disabled (Medicare), Title XVIII of the Social Security Act, provides for a hospital insurance program (Part A) and a related medical insurance program (Part B) for (1) eligible persons aged 65 and over, (2) disabled persons under age 65 who have been entitled to Social Security or Railroad Retirement disability benefits for at least 24 consecutive months, and (3) individuals under age 65 with chronic kidney disease who are currently insured by or entitled to Social Security benefits.

Medicare Part A, Hospital Insurance Benefits for the Aged and Disabled, provides protection against the costs of hospital inpatient care, post-hospital extended care in nursing facilities, and post-hospital home health care. Medicare Part B is a voluntary program that covers physician services, hospital outpatient services, and certain other health services. The Health Care Financing Administration (HCFA) administers the Medicare Program. Under an agreement with HCFA, the Blue Cross and Blue Shield Association (BCBSA) participates as a Medicare Intermediary and Carrier to assist in program administration.

Under a subcontract with BCBSA, Kansas received, reviewed, audited and paid Medicare Part A Claims in the state of Kansas. Also, under a separate agreement with BCBSA, Kansas participated as the Medicare Part B Carrier for the states of Kansas and Nebraska.

Subject to limitations specified in the agreements, Kansas is entitled to reimbursement for reasonable administrative costs incurred. Those costs in connection with Kansas activities are accumulated in cost centers and subsequently charged directly or allocated indirectly to various lines of business, including Medicare Part A and Part B.

For the audit period October 1, 1995 through September 30, 1999, Kansas claimed \$95,622,876 in administrative costs. During the same period, Kansas' actual allowable administrative costs allocated to Medicare were \$106,120,623. Kansas Limited their FACP claimed costs to the Approved NOBA until FY98 when they began claiming all actual allowable costs. Because of the Program Management and Medicare Integrity Program contract budget restrictions, Kansas limited letter of credit withdrawals to \$91,396,396. As a result, for the four years there were \$14,724,227 (\$106,120,623-\$91,396,396) in unrecovered costs. Further details on unrecovered amounts are provided on EXHIBIT M.

## SCOPE

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, "Government Auditing Standards," and the "Audit Guide for the Review of Administrative Costs Incurred by Medicare Intermediaries and Carriers under Title XVIII of the Social Security Act" (Audit Instruction E-1), dated February 25, 1991. The objective of our examination was to determine whether the \$106,120,623 in administrative costs (exclusive of pension segmentation costs) allocated by Kansas to administer Part A and Part B for Kansas and Part B for Nebraska for the period October 1, 1995 through September 30, 1999 were reasonable, allocable and allowable. Of that amount \$95,622,876 was claimed on FACP's. Accordingly, we examined, on a test basis, evidence supporting the allocated costs and performed such other procedures as we considered necessary in the circumstances.

In performing our examination, we:

- reviewed significant internal controls over compliance areas;
- performed detail testing of major cost categories and examined executive compensation, general and administrative expenses, and complementary credits; and
- determined whether recommendations identified during the previous administrative cost examination were implemented.

To avoid duplication of audit effort, we relied on the work performed by:

- the independent certified public accounting firm of Deloitte & Touche LLP in reconciling the corporate accounting records to the financial statements, as well as, their testing or analysis of the payroll system, cash disbursement system, fixed assets, and depreciation accounts; and
- the Corporate Audit Division for their review of the Medicare Management Control System as covered under SAS (Statements on Auditing Standards) 70.

Our review of internal controls over compliance covered the financial reporting, and cost allocation, allowability of costs in accordance with Part 31 of the FAR as interpreted and modified by the Medicare agreement, and contractual requirements governing specific items of costs. That review, combined with our reliance on external and internal audit work, was made for the limited purpose of determining the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the FACP's. Because our study of internal control was made for the limited purpose, it would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on Kansas system of internal accounting control taken as a whole or on any of

the categories identified above. However, our study disclosed instances of noncompliance (see the Findings and Recommendations Section of this report).

Our testing covered the major cost categories such as, salaries, fringe benefits, facility and occupancy and EDP costs. In addition, we reviewed general administrative costs, return on investment and complementary credits. Our sample selections for detail testing were made with the primary emphasis upon significant, unusual and/or possibly unallowable transactions.

Costs claimed on the FACPs included costs related to Y2K remediation of Kansas' Medicare computer systems. The OIG, Office of Audit Services has previously issued reports on these costs under Common Identification Numbers (CINs) A-07-99-02065 and A-07-00-02067. Comments relative to these costs are included in the other matters section of this report. We did not contact HCFA regional staff to determine their actions taken on the Y2K remediation because there were no significant findings reported.

The examination excluded a review of pension segmentation. A separate audit of the Kansas' pension plan for compliance with segmentation requirements will be performed at a later date.

The fieldwork was performed at Blue Cross and Blue Shield of Kansas, Inc, Topeka, Kansas during October through November 2000.

## FINDINGS AND RECOMMENDATIONS

### **EXECUTIVE COMPENSATION**

During our review period, Medicare was allocated \$191,919 in executive compensation increases which exceeded the average increases for comparable positions, as measured by the U.S. Department of Labor, Bureau of Labor Statistics, Employment Cost Index (ECI). These charges are considered unreasonable and thus unallowable.

Regulations to which the contractors must adhere support the position that compensation charged to Medicare must be reasonable. Section 31.205-b(b)(1) of the FAR, which has been incorporated by specific reference in the Medicare contract, state, in part:

*"Based upon an initial review of the facts, contracting officers or their representatives may challenge the reasonableness of any individual element or the sum of the individual elements of compensation paid or accrued to particular employees or classes of employees. In such cases there is no presumption of reasonableness and, upon challenge, the contractor must demonstrate the reasonableness of the compensation item in question."*

The onus, therefore, is placed on the contractor to show that compensation is reasonable. In reviewing the reasonableness of increases to executive compensation, we used the nationwide averages for executive and managerial employees employed in the private sector, as measured by the U.S. Department of Labor's (DOL) Bureau of Labor Statistics Employment Cost Index (ECI).

The ECI represents dozens of indices that are calculated for various occupational and industry groups to measure the rate of change in employee compensation. It is a fixed weight index at the occupational level and eliminates the effects of employment shifts among occupations. The ECI is distinguished from other surveys in that it covers all establishments and occupations in both the private non-farm and public sector. We used the index for assessing the reasonableness of executive compensation allocated to Medicare because we consider it to be the most equitable relevant measure.

For executives in managerial/administrative occupations, the ECI had the following average compensation increases:

CY	1996	3.5%
CY	1997	4.6%
CY	1998	3.2%
CY	1999	5.1%

We compared the actual increases received by those executives, vice presidents and above, that allocated any compensation to Medicare. Because of retirements and corporate reorganization not all executives were in the comparison for the full 4-year period. Therefore, the criteria we used in calculating compensation increases were as follows:

- base year was either the executives actual compensation packages for CY 1995, or their compensation package for a later year if not employed in CY 1995;
- final year of our review was either the compensation package for CY 1999 or the package for the year in which the executive retired, terminated or transferred, if prior to CY 1999; and
- excess compensation charged to Medicare was calculated based on the same cost methodology as Kansas applied in developing the FACP's.

We did not attempt to determine the reasonableness of the base year compensation packages. Further, the compensation packages generally included only salary and incentive.

During the 4-year period reviewed there were 11 executives that served one or more of the years. Of those executives there were only four that met the above criteria and allocated a portion of their compensation to Medicare. Those 4 executives received compensation amounts that exceeded the ECI by a total of \$783,898. Medicare was allocated \$191,919 of that amount during the 4 fiscal years ended September 30, 1999.

A schedule of the excess executive compensation is as follows:

Fiscal Year	Part A Kansas	Part B Kansas	Part B Nebraska	Grand Total
1996	\$ 861	\$ 2,601	\$ 1,154	\$ 4,616
1997	5,277	17,490	7,417	30,185
1998	10,632	34,351	14,217	59,200
1999	<u>18,922</u>	<u>54,962</u>	<u>24,035</u>	<u>97,918</u>
Total	<u>\$35,692</u>	<u>\$109,404</u>	<u>\$46,823</u>	<u>\$191,919</u>

According to Kansas officials, the contractor is in disagreement with the employment of the ECI index to determine executive compensation. While the contractor agrees that the Federal Acquisition Regulation (FAR) states that compensation can be tested for reasonableness, it is not believed that the ECI should be used exclusively as the sole measure for the allowableness of employee compensation costs. Kansas participates in

the Hay Group's Insurance Industry salary survey to compare their salary data to a selected group of Blue Plans to determine the competitiveness of their salaries. The compensation philosophy of Kansas for Senior Management is to set a target that will be the Median (50<sup>th</sup> Percentile) of other Blue Cross Blue Shield Plans in the United States. In addition, Kansas does adhere to Section 808 of Public Law 105-85 that limits the maximum allowable compensation of the five highest paid executives that can be charged to the Medicare program.

The ECI is a widely recognized, unbiased measure of compensation practices. Further, the OIG provided audit steps requiring use of the ECI. All final determinations are made by HCFA.

#### **Recommendation:**

We recommend that:

1. The HCFA contracting officer consider offsetting the \$191,919 in excess executive compensation with a like amount of Kansas' unrecovered costs.
2. Kansas establish reasonable ceilings on the top executives' compensation increases allocated to Medicare.

#### **Kansas Response**

Kansas officials disagree with the finding and recommendation. Specifically, those officials disagree with the use of the ECI to measure the reasonableness of employment compensation. In addition to comments provided in the above finding, Kansas officials question whether the Medicare contract or Part 31 of the Federal Acquisition Regulation (FAR) include any language that provides the government the authority to exclusively employ the ECI index to determine executive compensation.

#### **Auditor Comment**

As previously stated the ECI is a widely recognized, unbiased measure of compensation practices. For that reason, OIG selected the ECI as the criteria for measuring the reasonableness of compensation increases. Further OIG provided the audit steps that require use of the ECI. Final resolution of the finding and recommendation rests with HCFA.

## OTHER MATTERS

### INTERIM EXPENDITURE REPORTS

Based on a comparison of the IER's as submitted by Kansas to HCFA and amounts claimed on the FACP, we concluded the IER's were materially accurate.

### PART A AND PART B BENEFIT PAYMENTS

Kansas made Part A and Part B benefit payments in the following:

#### Part A-Kansas

<u>Fiscal Year</u>	<u>Number of Claims (Million)</u>	<u>Benefits Paid (Million)</u>
1999	1.6	\$894
1998	1.5	842
1997	1.4	815
1996	<u>1.3</u>	<u>789</u>
Total	<u>5.8</u>	<u>\$3,340</u>

#### Part B-Kansas

<u>Fiscal Year</u>	<u>Number of Claims (Million)</u>	<u>Benefits Paid (Million)</u>
1999	9.0	\$611
1998	8.8	586
1997	8.8	584
1996	<u>8.3</u>	<u>541</u>
Total	<u>34.7</u>	<u>\$2,322</u>

#### Part A-Nebraska

<u>Fiscal Year</u>	<u>Number of Claims (Million)</u>	<u>Benefits Paid (Million)</u>
1999	3.7	\$224
1998	3.7	208
1997	3.7	198
1996	<u>3.3</u>	<u>189</u>
Total	<u>14.4</u>	<u>\$819</u>

Above claim numbers and payment amounts are rounded.



## **FOLLOW UP ON PRIOR FINDINGS**

The HHS/OIG Office of Audit Services performed an audit of the Medicare administrative costs claimed for the 5-year period ended September 30, 1993. Because Kansas had significant amounts of unrecovered costs during the audit period no financial adjustments were recommended. However, OIG made three procedural recommendations. Those recommendations, Kansas comments, and the follow up results are as follows:

OIG recommended that Kansas:

1. Establish reasonable ceilings on the top executives' salary increases allocated to Medicare.

Kansas did not concur with the recommendation and indicated that its executive compensation package was conservative and reasonable in the insurance industry. Also, Kansas indicated the ECI did not consider the many variables experienced by the contractor during the audit period.

The HCFA did not uphold OIG's recommendation. They indicated that extensive contract negotiations would be needed before HCFA could unilaterally place a ceiling on executive salary increases.

In our current audit, we used the ECI as directed in OIG's audit instructions. We determined that Kansas had allocated \$191,919 in excess executive compensation to Medicare (see the Findings and Recommendation Section). Also, we made the same procedural recommendation as presented in the prior report.

2. Establish adequate policies and procedures to ensure travel costs are properly allocated to Medicare.

Kansas concurred with the recommendation and indicated that travel costs pertaining to the annual executive board meeting should not be charged to the Medicare contract.

Our current review of executive board meeting expense indicated that the necessary corrective action has been implemented by Kansas.

3. Establish adequate policies and procedures to ensure wire system usage costs are not allocated to Medicare.

Kansas concurred with the finding and recommendation.

Our current review disclosed no wire system costs charged to Medicare.

Regarding fiscal years 1994 and 1995 FACP costs claimed, HCFA had performed a Risk Assessment Review and concluded that costs claimed were properly supported. Therefore, fiscal years 1994 and 1995 costs claimed were settled without audit.

#### **YEAR 2000 Y2K MEDICARE COMPUTER SYSTEM CONVERSION**

OIG performed a review of the Y2K costs reported on the IER through June 30, 1999. There were no significant deficiencies reported to HCFA. We reconciled the total Y2K costs claimed for fiscal years 1999 and 1998 to the books of records.

The status at May 31, 2000 of Y2K funding authorized in NOBA's for FY98 and FY99 is provided on EXHIBIT N.

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**Manager:**

**Williams J. Anderson**

## **INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE**

Health Care Financing Administration  
Department of Health and Human Services

We have examined management's assertion included in the Final Administrative Cost Proposal that except for noncompliance described in the third paragraph, Blue Cross and Blue Shield of Kansas, Inc. (Kansas) complied with the reimbursement principles of Part 31 of the FAR as contained in 48 Code of Federal Regulations (CFR) Chapter (CH) 1, interpreted and modified by the Medicare Agreements for the four fiscal years ended September 30, 1999. Management is responsible for Kansas compliance with those requirements. Our responsibility is to express an opinion on Kansas compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the "Audit Guide for the Review of Administrative Costs, Incurred by Medicare Intermediaries and Carriers Under Title XVIII of the Social Security Act" (Audit Instruction E-1), and accordingly, included examining, on a test basis, evidence about Kansas compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Kansas compliance with specified requirements.

Our examination disclosed material noncompliance as identified in the Findings and Recommendation section of this report with the reimbursement principles applicable to Kansas for the four fiscal years ended September 30, 1999.

Excluded from our examination was a review of pension segmentation. This exclusion was directed by the U.S. Department of Health and Human Services, Office of Inspector General HHS-OIG.

In our opinion, except for the material noncompliance described in the third paragraph and adjustments that might be necessary for pension segmentation, Kansas complied, in all material aspects, with the reimbursement principles of Part 31 of the FAR as contained in 48 Code of Federal Regulations (CFR) Chapter (CH) 1, interpreted and modified by the Medicare Agreements for the four fiscal years ended September 30, 1998.

### *Members*

*American Institute of Certified Public Accountants  
Missouri Society of Certified Public Accountants*

Health Care Financing Administration  
Department of Health and Human Services

This report is intended solely for the use of management of Kansas and the U.S.  
Department of Health and Human Services in regard to their agreement to administer the  
Medicare program and should not be used for any other purpose.

*Doshi & Associates P.C.*

**Doshi & Associates, P.C.**

Kansas City, Missouri  
November 17, 2000

**Doshi & Associates, P.C.**

## Exhibit A

**Blue Cross Blue Shield of Kansas**  
**FINAL ADMINISTRATIVE COST PROPOSAL**  
**AND AUDITOR'S RECOMMENDATIONS**  
**MEDICARE PART A (KANSAS)**  
**FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1996**

<u>Operation</u>	<u>Administrative Costs</u>
Bills Payment	\$ 1,668,826
Recons and Hearings	167,142
Medicare Secondary Payer	423,449
Medical Rev & Util. Rev	392,750
Provider Desk Reviews	440,441
Provider Field Audits	657,387
Provider Settlements	170,913
Provider Reimbursement	249,421
Productivity Investments	1,273
Benefits Integrity	97,035
Other	-
Credits	<u>(231,396)</u>
Total FACP Costs Claimed	\$ 4,037,241
 <u>Recommended Adjustments</u>	
Executive Compensation	<u>(861)</u>
Total Recommended For Acceptance	<u>\$ 4,036,380</u>

Note: Explanation of each adjustment is provided in the "Findings and Recommendations" section of this report.

**Blue Cross Blue Shield of Kansas**  
**FINAL ADMINISTRATIVE COST PROPOSAL**  
**AND AUDITOR'S RECOMMENDATIONS**  
**MEDICARE PART A (KANSAS)**  
**FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1997**

<u>Operation</u>	<u>Administrative Costs</u>
Bills Payment	\$ 1,663,024
Recons and Hearings	188,611
Medicare Secondary Payer	451,915
Medial Rev & Util. Rev	333,492
Provider Desk Reviews	390,342
Provider Field Audits	539,300
Provider Settlements	167,189
Provider Reimbursement	302,640
Productivity Investments	105,668
Benefits Integrity	106,076
MIP Other	22,286
Credits	<u>(218,635)</u>
Total FACP Costs Claimed	\$ 4,051,908
 <u>Recommended Adjustments</u>	
Executive Compensation	<u>(5,277)</u>
Total Recommended For Acceptance	<u>\$ 4,046,631</u>

Note: Explanation of each adjustment is provided in the **"Findings and Recommendations"** section of this report.

**Blue Cross Blue Shield of Kansas**  
**FINAL ADMINISTRATIVE COST PROPOSAL**  
**AND AUDITOR'S RECOMMENDATIONS**  
**MEDICARE PART A (KANSAS)**  
**FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1998**

Exhibit C

<u>Operation</u>	<u>Administrative Costs</u>
<i>PM Activity By Function</i>	
Bills/ Claims Payment	\$ 1,081,190
Appeals/ Reviews	181,637
Inquiries	317,727
Provider Education and Training	273,279
Reimbursement	375,783
Productivity Investments	362,200
PM Special Projects	1,900
Credits	(258,817)
<i>MIP Activity By Function</i>	
Medical Review	398,164
Medicare Secondary Payer *	464,441
Benefits Integrity	141,669
Provider Education and Training	48,420
Audit	<u>1,280,723</u>
Total FACP Costs Claimed	\$ 4,668,316
 <u>Recommended Adjustments</u>	
Executive Compensation	<u>(10,632)</u>
Total Recommended For Acceptance	<u><u>\$ 4,657,684</u></u>

Note: Explanation of each adjustment is provided in the "**Findings and Recommendations**" section of this report.

**Blue Cross Blue Shield of Kansas**  
**FINAL ADMINISTRATIVE COST PROPOSAL**  
**AND AUDITOR'S RECOMMENDATIONS**  
**MEDICARE PART A (KANSAS)**  
**FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1999**

Exhibit D

<u>Operation</u>	<u>Administrative Costs</u>
<i>PM Activity By Function</i>	
Bills/ Claims Payment	\$ 1,030,509
Appeals/ Reviews	160,495
Inquiries	289,008
Provider Education and Training	277,740
Reimbursement	470,790
Productivity Investments	92,520
PM Special Projects	
Credits	(291,675)
<i>MIP Activity By Function</i>	
Medical Review	437,663
Medicare Secondary Payer	600,896
Benefits Integrity	135,094
Provider Education and Training	7,618
Audit	<u>1,198,231</u>
Total FACP Costs Claimed	\$ 4,408,889
 <u>Recommended Adjustments</u>	
Executive Compensation	<u>(18,922)</u>
Total Recommended For Acceptance	<u><u>\$ 4,389,967</u></u>

Note: Explanation of each adjustment is provided in the "**Findings and Recommendations**" section of this report.



**Blue Cross Blue Shield of Kansas**  
**FINAL ADMINISTRATIVE COST PROPOSAL**  
**AND AUDITOR'S RECOMMENDATIONS**  
**MEDICARE PART B (KANSAS)**  
**FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1996**

<u>Operation</u>	<u>Administrative Costs</u>
Claims Payment	\$ 9,510,159
Review and Hearings	555,000
Beneficiary/Phys. Inquiry	1,633,000
Provider ED and Training	349,400
Medical Rev & Util. Rev	1,432,760
Medicare Secondary Payer	1,191,268
Participating Physician	200,500
Productivity Investments	140,282
Credits	(1,984,747)
Benefits Integrity	280,900
Other	-
Total FACP Costs Claimed	\$ 13,308,522
<u>Recommended Adjustments</u>	
Executive Compensation	(2,601)
Total Recommended For Acceptance	\$ <u>13,305,921</u>

Note: Explanation of each adjustment is provided in the **"Findings and Recommendations"** section of this report.

**Blue Cross Blue Shield of Kansas**  
**FINAL ADMINISTRATIVE COST PROPOSAL**  
**AND AUDITOR'S RECOMMENDATIONS**  
**MEDICARE PART B (KANSAS)**  
**FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1997**

<u>Operation</u>	<u>Administrative</u> <u>Costs</u>
Claims Payment	\$ 9,231,557
Reviews and Hearing	499,700
Beneficiary/Phys. Inquiry	1,470,000
Provider ED and Training	183,500
Medical Review & Util Review	1,389,443
Medicare Secondary Payer	1,246,555
Participating Physician	183,200
Productivity Investments	15,750
Credits/ Other	(2,187,796)
Benefits Integrity	386,704
MIP Other	153,898
Total FACP Costs Claimed	\$ 12,572,511

Recommended Adjustments

Executive Compensation	(17,490)
Total Recommended For Acceptance	<u>\$ 12,555,021</u>

Note: Explanation of each adjustment is provided in the "**Findings and Recommendations**" section of this report.

**Blue Cross Blue Shield of Kansas**  
**FINAL ADMINISTRATIVE COST PROPOSAL**  
**AND AUDITOR'S RECOMMENDATIONS**  
**MEDICARE PART B (KANSAS)**  
**FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1998**

Exhibit G

<u>Operation</u>	<u>Administrative Costs</u>
<i>PM Activity By Function</i>	
Bills/ Claims Payment	\$ 10,155,501
Appeals/ Reviews	1,110,064
Inquiries	1,986,266
Provider Education and Training	415,182
Participating Physician	395,151
Productivity Investments	478,100
PM Special Projects	1,200
Credits	(2,264,874)
<i>MIP Activity By Function</i>	
Medical Review	1,175,890
Medicare Secondary Payer	1,436,051
Benefits Integrity	532,354
Provider Education and Training	305,843
Total FACP Costs Claimed	\$ 15,726,728
 <u>Recommended Adjustments</u>	
Executive Compensation	(34,351)
Total Recommended For Acceptance	\$ <u>15,692,377</u>

Note: Explanation of each adjustment is provided in the **"Findings and Recommendations"** section of this report.

**Blue Cross Blue Shield of Kansas**  
**FINAL ADMINISTRATIVE COST PROPOSAL**  
**AND AUDITOR'S RECOMMENDATIONS**  
**MEDICARE PART B (KANSAS)**  
**FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1999**

Exhibit H

<u>Operation</u>	<u>Administrative Costs</u>
<i>PM Activity By Function</i>	
Bills/ Claims Payment	\$ 9,078,688
Appeals/ Reviews	1,051,590
Inquiries	1,871,040
Provider Education and Training	659,490
Participating Physician	18,271
Productivity Investments	213,025
Credits	(2,305,666)
<i>MIP Activity By Function</i>	
Medical Review	1,490,340
Medicare Secondary Payer	1,389,870
Benefits Integrity	598,022
Provider Education and Training	3,240
MIP Productivity Investments	946
MIP Special Projects	1,528
Total FACP Costs Claimed	\$ 14,070,384
 <u>Recommended Adjustments</u>	
Executive Compensation	(54,962)
Total Recommended For Acceptance	<u>\$ 14,015,422</u>

Note: Explanation of each adjustment is provided in the "**Findings and Recommendations**" section of this report.

Exhibit I

**Blue Cross Blue Shield of Kansas**  
**FINAL ADMINISTRATIVE COST PROPOSAL**  
**AND AUDITOR'S RECOMMENDATIONS**  
**MEDICARE PART B (NEBRASKA)**  
**FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1996**

<u>Operation</u>	<u>Administrative Costs</u>
Claims Payment	\$ 3,567,500
Reviews and Hearings	221,800
Beneficiary/Phys. Inquiry	950,400
Provider ED and Training	155,200
Medical Review and Utility Review	502,950
Medicare Secondary Payer	483,008
Participating Physician	104,523
Productivity Investments	75,056
Credits	(839,619)
Benefits Integrity	<u>117,300</u>
Total FACP Costs Claimed	\$ 5,338,118
<u>Recommended Adjustments</u>	
Executive Compensation	<u>(1,154)</u>
Total Recommended For Acceptance	<u><u>\$ 5,336,964</u></u>

Note: Explanation of each adjustment is provided in the **"Findings and Recommendations"** section of this report.

**Blue Cross Blue Shield of Kansas**  
**FINAL ADMINISTRATIVE COST PROPOSAL**  
**AND AUDITOR'S RECOMMENDATIONS**  
**MEDICARE PART B (NEBRASKA)**  
**FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1997**

<u>Operation</u>	<u>Administrative Costs</u>
Claims Payment	\$ 3,750,500
Reviews and Hearing	169,400
Beneficiary/Phys. Inquiry	736,800
Provider ED and Training	69,200
Medical Review & Utility Review	371,300
Medicare Secondary Payer	359,400
Participating Physician	129,500
Productivity Investments	15,000
Credits/ Other	(986,651)
Benefits Integrity	90,900
MIP Other	53,100
Total FACP Costs Claimed	<u>\$ 4,758,449</u>

Recommended Adjustments

Executive Compensation	<u>(7,417)</u>
Total Recommended For Acceptance	<u><u>\$ 4,751,032</u></u>

Note: Explanation of each adjustment is provided in the **"Findings and Recommendations"** section of this report.

**Blue Cross Blue Shield of Kansas**  
**FINAL ADMINISTRATIVE COST PROPOSAL**  
**AND AUDITOR'S RECOMMENDATIONS**  
**MEDICARE PART B (NEBRASKA)**  
**FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1998**

Exhibit K

<u>Operation</u>	<u>Administrative Costs</u>
<i>PM Activity by Function</i>	
Bills / Claim Payment	\$ 3,930,232
Appeals/Reviews	485,021
Inquiries	986,952
Provider Education and Training	245,363
Participating Physician	204,107
Productivity Investments	223,300
PM Special Projects	500
Credits	(1,060,266)
<i>MIP Activity By Function</i>	
Medical Review	575,493
Medicare Secondary Payer	759,374
Benefits Integrity	178,575
Provider Education and Training	145,229
Total FACP Costs Claimed	\$ 6,673,880
 <u>Recommended Adjustments</u>	
Executive Compensation	(14,217)
Total Recommended For Acceptance	\$ <u>6,659,663</u>

Note: Explanation of each adjustment is provided in the "**Findings and Recommendations**" section of this report.

**Blue Cross Blue Shield of Kansas**  
**FINAL ADMINISTRATIVE COST PROPOSAL**  
**AND AUDITOR'S RECOMMENDATIONS**  
**MEDICARE PART B (NEBRASKA)**  
**FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1999**

Exhibit L

<u>Operation</u>	<u>Administrative Costs</u>
<i>PM Activity by Function</i>	
Bills / Claim Payment	\$ 3,745,897
Appeals/Reviews	453,980
Inquiries	942,473
Provider Education and Training	330,564
Participating Physician	13,220
Productivity Investments	109,600
Credits	(1,127,171)
<i>MIP Activity By Function</i>	
Medical Review	724,325
Medicare Secondary Payer	637,989
Benefits Integrity	171,725
Provider Education and Training	4,944
MIP Productivity Investments	384
Total FACP Costs Claimed	\$ 6,007,930
 <u>Recommended Adjustments</u>	
Executive Compensation	(24,035)
Total Recommended For Acceptance	<u>\$ 5,983,895</u>

Note: Explanation of each adjustment is provided in the "**Findings and Recommendations**" section of this report.



**Blue Cross Blue Shield of Kansas**  
**STATEMENT OF UNRECOVERED COSTS**  
**FISCAL YEARS 1996, 1997, 1998 AND 1999**

	Approved NOBA	Claimed Per FACP	Booked Costs	Amount of Withdrawal	Unrecovered Costs	Note
<b>FY 1996</b>						
Kansas Medicare A	\$ 4,037,241	\$ 4,037,241	\$ 4,182,038	\$ 4,037,241	\$ 144,797	
Kansas Medicare B	13,308,522	13,308,522	16,157,365	13,308,522	2,848,843	
Nebraska Medicare B	<u>5,338,118</u>	<u>5,338,118</u>	<u>7,178,631</u>	<u>5,338,118</u>	<u>1,840,513</u>	
Total Contracts	<u>\$ 22,683,881</u>	<u>\$ 22,683,881</u>	<u>\$ 27,518,034</u>	<u>\$ 22,683,881</u>	<u>\$ 4,834,153</u>	(a)
<b>FY 1997</b>						
Kansas Medicare A	\$ 4,051,908	\$ 4,051,908	\$ 4,324,244	\$ 4,051,908	\$ 272,336	
Kansas Medicare B	12,572,511	12,572,511	15,669,585	12,572,511	3,097,074	
Nebraska Medicare B	<u>4,758,449</u>	<u>4,758,449</u>	<u>7,052,633</u>	<u>4,758,449</u>	<u>2,294,184</u>	
Total Contracts	<u>\$ 21,382,868</u>	<u>\$ 21,382,868</u>	<u>\$ 27,046,462</u>	<u>\$ 21,382,868</u>	<u>\$ 5,663,594</u>	(a)
<b>FY 1998</b>						
Kansas Medicare A	\$ 4,845,685	\$ 4,668,316	\$ 4,668,316	\$ 4,658,330	\$ 9,986	
Kansas Medicare B	13,157,100	15,726,728	15,726,728	13,050,426	2,676,302	
Nebraska Medicare B	<u>5,294,600</u>	<u>6,673,880</u>	<u>6,673,880</u>	<u>5,216,833</u>	<u>1,457,047</u>	
Total Contracts	<u>\$ 23,297,385</u>	<u>\$ 27,068,924</u>	<u>\$ 27,068,924</u>	<u>\$ 22,925,589</u>	<u>\$ 4,143,335</u>	(b)
<b>FY 1999</b>						
Kansas Medicare A	\$ 4,505,500	\$ 4,408,889	\$ 4,408,889	\$ 4,394,755	\$ 14,134	
Kansas Medicare B	14,240,500	14,070,384	14,070,384	14,067,582	2,802	
Nebraska Medicare B	<u>5,987,000</u>	<u>6,007,930</u>	<u>6,007,930</u>	<u>5,941,721</u>	<u>66,209</u>	
Total Contracts	<u>\$ 24,733,000</u>	<u>\$ 24,487,203</u>	<u>\$ 24,487,203</u>	<u>\$ 24,404,058</u>	<u>\$ 83,145</u>	(c)
Grand Total	<u>\$ 92,097,134</u>	<u>\$ 95,622,876</u>	<u>\$ 106,120,623</u>	<u>\$ 91,396,396</u>	<u>\$ 14,724,227</u>	

**Notes:**

- (a) In fiscal years 1996 and 1997, Kansas limited claimed costs and letter of credit withdrawals to approved NOBA amounts. However, booked costs for each year exceeded the approved NOBAs.
- (b) In fiscal year 1998, Kansas claimed total booked costs which exceeded the NOBA. However, Kansas limited letter of credit withdrawals because of the Medicare Integrity Program contract budget restrictions. Therefore, the total \$4,143,335 unrecovered amount includes; \$3,771,539 in booked costs that exceed the NOBA and, \$371,796 in funds that were not withdrawn from the letter of credit because of budget restrictions.
- (c) In fiscal year 1999 Kansas claimed total booked costs that were less than the NOBA. However actual letter of credit withdrawals were \$83,145 less than the booked costs because of budget restrictions.

**Blue Cross Blue Shield of Kansas**  
**STATUS OF Y2K FUNDING**  
**FISCAL YEARS 1998 AND 1999**

<b>FISCAL YEAR 1998 FUNDING</b>	<b>KANSAS A</b>	<b>KANSAS B</b>	<b>NEBRASKA B</b>
FY98 NOBA	\$362,200	\$478,100	\$223,300
FY98 IER - Withdrawn in FY98	(28,873)	(96,680)	(47,893) (a)
FY98 Y2K Funds remain for FY99	\$333,327	\$381,420	\$175,407
FY99 IER using FY98 Y2K Funds	(316,019)	(381,420)	(179,921)
FY98 Y2K Funds remain for FY 2000	<u>\$17,308</u>	<u>\$ 0</u>	<u>\$ 0</u>
 <b>FISCAL YEAR 1999 FUNDING</b>			
FY99 NOBA	\$110,700	\$212,900	\$104,400
FY99 5% Shifting from 18003/PM	0	125	5,200
Total FY99 Funding Available for Y2K	\$110,700	\$213,025	\$109,600
FY99 IER - Withdrawn in FY99	0	(59,385)	(82,464)
FY99 Y2K Funds remain for FY 2000	\$110,700	\$153,640	\$27,136
Less YTD FY99 Y2K Withdrawals	(91,312)	(153,648)	(21,936)
FY99 Remaining Y2K Funds for FY 2000	<u>\$19,388</u>	<u>\$ (8)</u>	<u>\$ 5,200</u>
 April 2000 Crosswalk	\$109,828	\$215,054	\$100,557
Less: FY98 Withdrawal	(17,308)	0	0
YTD FY99 Y2K Withdrawals	<u>(91,312)</u>	<u>(153,648)</u>	<u>(21,936)</u>
 FY99 Withdrawals/Adjustment	<u>\$ (1,208)</u>	<u>\$ 8</u>	<u>\$ (5,200)</u>
 FY99 Withdrawals in FY00	\$(92,520)	\$(153,640)	\$(27,136)
Total FY99 Withdrawals	(92,520)	(213,025)	(109,600)
FY99 Y2K Undrawn Funds	<u>18,180</u>	<u>0</u>	<u>0</u>
 FY00 Y2K Withdrawals	<u>\$0</u>	<u>\$(61,414)</u>	<u>\$(73,421)</u>

**Notes:**

(a) \$47,893 was actually withdrawn in FY98; however, FACP was revised to reflect \$43,379. This worksheet was changed to reflect \$43,379 which caused us to overdraw FY98 funds by \$4,514. This amount was returned to HCFA on 05/31/00.



**MEDICARE  
PART A INTERMEDIARY**  
(785) 291-7000

**MEDICARE  
PART B CARRIER**  
Kansas, Nebraska and  
Northwest Missouri  
(785) 291-7000

January 24, 2001

Kant D. Doshi  
Doshi & Associates, P.C.  
4520 Madison, Suite 105  
Kansas City, MO 64111

Dear Mr. Doshi:

The draft report on the audit of the Medicare Administrative Costs for Blue Cross and Blue Shield of Kansas (BCBSKS) has been reviewed. A few responses to the information presented have been formulated for your consideration.

**Introduction/Background**

The amount documented as Kansas' actual allowable administrative costs for the audit period October 1, 1995 through September 30, 1999 is \$105,992,003. The correct amount is \$106,120,623. Attached is a worksheet documenting this amount and an explanation of the differences. The \$105,992,003 needs to be reduced for unallowable costs and increased for the Y2K costs that need to be reported in the respective years where funding was available. This also changes the unrecovered costs from \$14,595,607 to \$14,724,227.

**Findings and Recommendations**

We would like to add that BCBSKS does not interpret the Medicare contract nor part 31 of the Federal Acquisition Regulation (FAR) as including any language that provides the government the authority to exclusively employ the ECI index to determine executive compensation. We stand by our original statement that contests this finding and continue to believe that the policy followed by BCBSKS ensures compensation for Senior Management is reasonable based on the competitiveness of the market.

**Exhibit I**

The operations have been mislabeled as a result of the omission of Medicare Secondary Payer after Medical Review and Utility Review. There should be no administrative costs in "Other".

**Exhibit M**

The approved NOBA for FY1998 Kansas Medicare A should reflect \$4,845,685. The difference represents \$177,369 of funding received for Medicare Northwest Data Center cost overruns. The NOBA for FY1999 Kansas Medicare A should reflect \$4,505,500, which is from the most recent NOBA released to our attention. As mentioned above, the booked costs should reflect \$106,120,623 and the unrecovered costs should reflect \$14,724,227.

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**MEDICARE PART A & PART B**  
1133 SW Topeka Boulevard  
Topeka, Kansas 66629-0001  
A HCFA CONTRACTED INTERMEDIARY/CARRIER



**MEDICARE**  
**PART A INTERMEDIARY**  
(785) 291-7000

**MEDICARE**  
**PART B CARRIER**  
Kansas, Nebraska and  
Northwest Missouri  
(785) 291-7000

Page 2

**Exhibit N**

Please change the bottom of the exhibit after the YTD FY99 Y2K Withdrawals to read as follows:

	<b>Kansas A</b>	<b>Kansas B</b>	<b>Nebraska B</b>
FY99 Withdrawals/Adjustment	\$ (1,208)	\$ 8	\$ (5,200)
	-----	-----	-----
FY99 Withdrawals in FY00	\$(92,520)	\$(153,640)	\$(27,136)
Total FY99 Withdrawals	\$(92,520)	\$(213,025)	\$(109,600)
FY99 Y2K Undrawn Funds	<u>\$ 18,180</u>	<u>\$ 0</u>	<u>\$ 0</u>
FY00 Y2K Withdrawals	<u>\$ 0</u>	<u>\$ (61,414)</u>	<u>\$(73,421)</u>

It is felt that this presents a clearer picture of the transactions involving Y2K activity.

In closing, we would also like to comment on how pleasant it was to work with both Bill and Ashok during the audit. They documented their requests for information efficiently and had very reasonable timeframes.

Sincerely,

Kay Vondemkamp  
Vice President, Government Programs

Enclosure

C: Bebo Lowery-Born  
Don Lynn  
Dave Manley  
Tom Edwards  
Dan Callahan  
Ron Simmons  
Ann Shelton

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**MEDICARE PART A & PART B**  
1133 SW Topeka Boulevard  
Topeka, Kansas 66629-0001  
A HCFA CONTRACTED INTERMEDIARY/CARRIER

**STATEMENT OF UNRECOVERED COSTS  
FISCAL YEARS 1996, 1997, 1998, AND 1999**

**BOOKED COSTS**

	BCBSKS	DOSHI	DIFFERENCE
<b>FY 1996</b>			
Kansas Medicare A	\$ 4,182,038	\$ 4,182,038	\$ -
Kansas Medicare B	\$ 16,157,365	\$ 16,158,455	\$ (1,090)
Nebraska Medicare B	\$ 7,178,631	\$ 7,178,631	\$ -
<b>Total Contracts</b>	<b>\$ 27,518,034</b>	<b>\$ 27,519,124</b>	<b>\$ (1,090)</b>

The difference is unallowable costs.

<b>FY 1997</b>			
Kansas Medicare A	\$ 4,324,244	\$ 4,324,244	\$ -
Kansas Medicare B	\$ 15,669,585	\$ 15,669,585	\$ -
Nebraska Medicare B	\$ 7,052,633	\$ 7,052,633	\$ -
<b>Total Contracts</b>	<b>\$ 27,046,462</b>	<b>\$ 27,046,462</b>	<b>\$ -</b>

<b>FY 1998</b>			
Kansas Medicare A	\$ 4,668,316	\$ 4,334,989	\$ 333,327
Kansas Medicare B	\$ 15,726,728	\$ 15,345,307	\$ 381,421
Nebraska Medicare B	\$ 6,673,880	\$ 6,498,472	\$ 175,408
<b>Total Contracts</b>	<b>\$ 27,068,924</b>	<b>\$ 26,178,768</b>	<b>\$ 890,156</b>

(KS A) FY '99 Y2K Costs Reported/Funded in FY '98	\$ 316,019
FY '00 Y2K Costs Reported/Funded in FY '99	\$ 17,308
<b>TOTAL</b>	<b>\$ 333,327</b>

(KS B) FY '99 Y2K Costs Reported/Funded in FY '98	\$ 381,421
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(NE B) FY '99 Y2K Costs Reported/Funded in FY '98	\$ 175,408
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<b>FY 1999</b>			
Kansas Medicare A	\$ 4,408,889	\$ 4,664,070	\$ (255,181)
Kansas Medicare B	\$ 14,070,384	\$ 14,494,886	\$ (424,502)
Nebraska Medicare B	\$ 6,007,930	\$ 6,088,693	\$ (80,763)
<b>Total Contracts</b>	<b>\$ 24,487,203</b>	<b>\$ 25,247,649</b>	<b>\$ (760,446)</b>

(KS A) FY '99 Y2K Costs Reported/Funded in FY '98	\$ (316,019)
FY '00 Y2K Costs Reported/Funded in FY '99	\$ 92,520
Unallowable Costs	\$ (31,682)
<b>TOTAL</b>	<b>\$ (255,181)</b>

(KS B) FY '99 Y2K Costs Reported/Funded in FY '98	\$ (381,420)
FY '00 Y2K Costs Reported/Funded in FY '99	\$ 153,640
Unallowable Costs	\$ (196,722)
<b>TOTAL</b>	<b>\$ (424,502)</b>

(NE B) FY '99 Y2K Costs Reported/Funded in FY '98	\$ (179,921)
FY '00 Y2K Costs Reported/Funded in FY '99	\$ 27,136
Unallowable Costs	\$ 72,022
<b>TOTAL</b>	<b>\$ (80,763)</b>

<b>GRAND TOTAL</b>	<b>\$ 106,120,623</b>	<b>\$ 105,992,003</b>	<b>\$ 128,620</b>
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**STATEMENT OF UNRECOVERED COSTS  
FISCAL YEARS 1996, 1997, 1998, AND 1999**

**APPROVED NOBA**

	BCBSKS	DOSHI	DIFFERENCE	
<b>FY 1996</b>				
Kansas Medicare A	\$ 4,037,241	\$ 4,037,241	\$ -	
Kansas Medicare B	\$ 13,308,522	\$ 13,308,522	\$ -	
Nebraska Medicare B	\$ 5,338,118	\$ 5,338,118	\$ -	
<b>Total Contracts</b>	<b>\$ 22,683,881</b>	<b>\$ 22,683,881</b>	<b>\$ -</b>	
<b>FY 1997</b>				
Kansas Medicare A	\$ 4,051,908	\$ 4,051,908	\$ -	
Kansas Medicare B	\$ 12,572,511	\$ 12,572,511	\$ -	
Nebraska Medicare B	\$ 4,758,449	\$ 4,758,449	\$ -	
<b>Total Contracts</b>	<b>\$ 21,382,868</b>	<b>\$ 21,382,868</b>	<b>\$ -</b>	
<b>FY 1998</b>				
Kansas Medicare A	\$ 4,845,685	\$ 4,668,316	\$ 177,369	(A)
Kansas Medicare B	\$ 13,157,100	\$ 13,157,100	\$ -	
Nebraska Medicare B	\$ 5,294,600	\$ 5,294,600	\$ -	
<b>Total Contracts</b>	<b>\$ 23,297,385</b>	<b>\$ 23,120,016</b>	<b>\$ 177,369</b>	
<b>FY 1999</b>				
Kansas Medicare A	\$ 4,505,500	\$ 4,483,834	\$ 21,666	(B)
Kansas Medicare B	\$ 14,240,500	\$ 14,240,500	\$ -	
Nebraska Medicare B	\$ 5,987,000	\$ 5,987,000	\$ -	
<b>Total Contracts</b>	<b>\$ 24,733,000</b>	<b>\$ 24,711,334</b>	<b>\$ 21,666</b>	
<b>GRAND TOTAL</b>	<b>\$ 92,097,134</b>	<b>\$ 91,898,099</b>	<b>\$ 199,035</b>	

(A) The NOBA amount reflected by BCBSKS is based on the most recent NOBA released by the Kansas City HCFA Regional Office that includes funding for Medicare Northwest Data Center cost overruns with an acceptance date of 11/24/2000.

(B) The NOBA amount reflected by BCBSKS is based on the most recent NOBA released by the Kansas City HCFA Regional Office with an acceptance date of 09/28/1999.